FOURTH QUARTER | DECEMBER 2008 | ROD R. BLAGOJEVICH, GOVERNOR

Insight

A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

IMPORTANT INFORMATION FOR THE 2009 457 PLAN YEAR

To help you better prepare for the upcoming year, below is a summary of the 2009 maximum salary deferral contributions you can make to your State of Illinois Deferred Compensation Plan:

- The IRS annual salary deferral dollar limit for before-tax contributions increases to $16,500.
- The maximum catch-up contribution amount for participants who will be age 50 or older in 2009 increases to $5,500. (To be eligible to make catch-up contributions, you'll also need to contribute the maximum amount allowed by your Plan.)
- The 457 special catch-up provision increases to $33,000. (This provision can only be elected during the three years (consecutive) prior to, but not including, the year the participant attains Normal Retirement Age, as defined by the 457 Plan.)

REQUIRED MINIMUM DISTRIBUTION (RMD) RELIEF FOR 2009

The Worker, Retiree and Employer Recovery Act of 2008 was signed by the President on December 23, 2008. This law waives the minimum distribution required for calendar year 2009 from individual retirement plans and employer-provided defined contribution plans. The next required minimum distribution would be for calendar year 2010. Initial 2008 RMDs that were postponed to April 1, 2009, must still be made.

The Department of Central Management Services is currently reviewing this law to fully determine the impact and develop formal procedures for the participants in the State Employees' Deferred Compensation Plan. **If you are to receive a 2009 required minimum distribution that you wish to suspend, you must contact the Deferred Compensation Division at 217-782-7006.**

FEES EXTRACTED FROM THE INVESCO INTERNATIONAL GROWTH EQUITY TRUST

Participants investing in the Invesco International Growth Equity Trust experienced a fee transaction which occurred on December 31, 2008. Please see the following information regarding this fee:

1) **Why was there a fee extracted from my account?**
   The fee represents the investment management fee paid to Invesco National Trust Company to provide investment advisory services to the Invesco International Growth Equity Trust.

2) **Why does Invesco charge a hard-dollar fee for investment management rather than deduct the fee from the fund's daily price, like the other funds in the Plan lineup?**
   The Invesco International Growth Equity Trust is a collective trust fund rather than a mutual fund. Invesco National Trust Company serves as trustee and investment manager and has appointed Invesco Aim Advisors, Inc. as subadvisor to the fund. Upon inception, on May 8, 2008, the fund's investment management fee and accounting structure was such that deduction of the fee from the fund's daily price was not possible. However, beginning January 1, 2009, the fund will account for and deduct the investment management fee from its price. Prospectively, a hard-dollar fee extraction for investment management services will not be necessary.

3) **Will this be a recurring fee?**
   No, this is a one-time extraction of Invesco's investment management fee. Beginning January 1, 2009, the fund will extract the investment management fee from its daily Net Asset Value, in a fashion similar to the other investment options available through the Plan.

4) **What is the management fee for the Invesco's International Growth Equity Trust?**
   The maximum investment management fee tier under the Plan's current fee schedule is 0.80% annually and the minimum fee tier is 0.40%, annually. The actual management fees payable with respect to this fund will depend on the amount of Plan assets invested in the fund. Management fees do not include operating expenses, which are deducted directly from fund assets and reflected in the daily fund price. Information regarding management fees and fund operating expenses is included in the fund's annual report.

   Example: Participant A has a $1,000 balance in the Invesco International Growth Equity Trust, while Participant B has a balance of $10,000. Under the fund's tiered fee schedule, and based on Plan assets invested in the fund, suppose the fund's annualized investment management fee is 0.70%. Participant A would have paid $7 for the year, while Participant B would have paid $70.

DO YOU PLAN TO SPEND LESS IN 2009?

Even when you have the best intentions, breaking a habit can be tough.

If, like many other Americans, you have gotten into the habit of spending more than you make, the current recession may provide a strong incentive to change. In fact, according to Consumer Action, more than two-thirds of Americans are planning to spend less because of current economic conditions.[1] If you're one of them, here are a few suggestions that can help you get organized for the new year.

Review your spending habits

How much income do you receive each month, and how do you spend it? Tally up your income from the past two months. This may include paychecks, dividends, alimony, or other sources. Then go through your checkbook and bank statements. Write down the amounts that you spent during the past two months on rent or mortgage payments, credit card payments, utilities, food, transportation, spending money, and any other expenses. Don't forget to include expenses that may not occur each month, such as auto, home, or life insurance costs; automobile and home maintenance; and gifts. An easy way to do this is to divide the yearly cost by 12 and include that amount as a monthly expense.

Decide what's essential—and what's not

If you're spending more than you take in, you're wise to look for ways to cut back. If you're spending just a little more, you may be able to make small adjustments; if you're spending a lot more, you may have to be prepared to make some lifestyle changes. A good place to begin is by making a list of the ways in which you could spend less. Here are two ideas to get you started.

Food. Limiting the number of meals you eat out can reduce your spending—fast. Try planning the next week's meals, making a list of the items you need, and shopping on the weekend. This can reduce the temptation to pick up carryout on the way home. It's also a good idea to clip coupons and plan your meals around sale items.

Credit cards. Credit card interest can really add up. If you're carrying a high balance, the first thing to do is call your lender and ask for a lower rate. Next, start paying off current balances by making payments that are above the minimum amount due. Some minimum payments include only interest, so—if you pay that amount—you're not changing your balance at all. You may want to stop using your cards while you pay down your debt.

There are lots of ways to bring your spending in line with your income. If you would like to learn more about money management and savvy shopping, visit **www.ftc.gov/consumer**.

[1] www.consumer-action.org, *Poll finds consumers concerned about credit in current economy*, October 28, 2008.

INITIATE SOME SAVING RITUALS

Do you have any rituals you perform regularly? Maybe you always wear a certain perfume or piece of clothing for good luck. Or you make a wish when you see a car coming toward you with only one headlight. Try developing a few rituals for saving. You'll be surprised how fast your efforts add up.

- **Jingle, jingle**: Put all of the change in your pockets and purse into a savings jar at the end of each day. Deposit the change into a savings account each week.
- **Automate**: Have your bank automatically move a set amount of money from your checking account to your savings account each month.
- **Rev up**: Increase your retirement contribution by at least 1% each year. During 2009, the IRS will allow you to contribute up to $16,500 in regular contributions. If you're older than age 50, you can contribute up to an additional $5,500 in catch-up contributions. There are also special catch-up provisions for 457 plans that can be elected during the three years (consecutive) prior to, but not including, the year you attain Normal Retirement Age.

If you want to increase your retirement plan contribution, contact CMS at 1-800-442-1300.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information
800-442-1300/ 217-782-7006
TDD/TTY: 800-526-0844
Internet: http://www.state.il.us/cms/employee/defcom

Recordkeeper

T. Rowe Price Retirement Plan Services, Inc.
Account Value Information and Investment Changes:
888-457-5770 or TDD/TTY: 800-521-0325
Internet Access: 800-541-3022
Internet: http://rps.troweprice.com

RETIREMENT CHECKLIST FOR 2009

The new year is as good a time as any to review your retirement account and make any changes needed.

It's a good idea to review your retirement accounts every year and make sure you're on track to reach your goals. The following checklist includes some steps that can help. Check off each task after you've completed it.

❑ *Review your portfolio.*

If you're a do-it-yourself investor, it's important to review your asset allocation strategy each year. Make sure that changes in the value of your investments haven't caused you to invest more aggressively or more conservatively than you originally intended. Also, review your time horizon. If you have a long time until retirement and can tolerate risk, you may want to invest more in stock investments to pursue growth. As retirement nears, you may want to adopt a more conservative allocation that offers lower risk by increasing the portion of your savings that is invested in bonds and fixed-income options.

If you don't have the time or energy to review your investments each year, consider investing in a T. Rowe Price Retirement Fund. Retirement Funds automatically rebalance each year and become more conservative over time automatically. There are many important factors to consider when planning for retirement, including your expected expenses, sources of income, and available assets. Before investing in a Retirement Fund, be sure to weigh your objectives, time horizon, and risk tolerance. These funds invest in many underlying funds, which means that they are exposed to the risks of different areas of the market. Investors should note that the higher a fund's allocation to stocks, the greater the risk.

Call 1-800-457-5770 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

❑ *Rebalance as necessary.*

For example, if you originally invested 60% of your assets in stocks and 40% in bonds, and market fluctuation has caused your portfolio to shift so that you now have 50% in stocks and 50% in bonds, you may need to transfer assets from one fund to another to restore your investment strategy.

*The T. Rowe Price Automatic Rebalancing service offers an easy way to keep your asset allocation on track. It will automatically rebalance your account so you don't have to. To enroll, visit the **my**RetirementPlan Web site at **rps.troweprice.com** and choose Services. Or call T. Rowe Price at **1-800-457-5770**.*

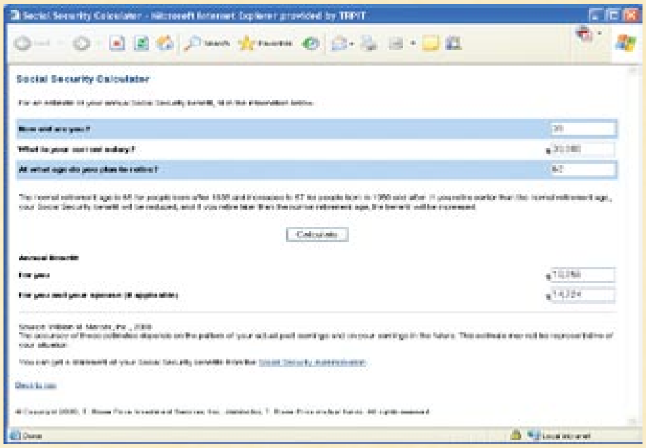
❑ *Set your 2009 contribution level.*

Experts suggest that you save 15% of your income each year if you want to have adequate income after retirement. If your contributions to your 457 Plan coupled with your pension estimates are less than 15% of your income, you may want to increase your 457 contribution amount for 2009.

*Find out what increasing your contribution can do by trying the Contribution Increase Calculator on the **my**RetirementPlan Web site at **rps.troweprice.com.***

CAN YOU LIVE ON $1,100 A MONTH?

That's the average amount retirees received in Social Security benefits during September 2008.[2] You can estimate the amount of income Social Security will provide for you by visiting the ***my**RetirementPlan* Web site at **rps.troweprice.com** and choosing Tools and then Calculators. Click on *"What can I expect from Social Security,"* and answer three simple questions. The calculator will do the rest. Once you discover your potential benefit amount, you may want to increase your contributions to your 457 Plan. All you have to do is click on My Account and Change Contribution Amount.



[2] Social Security Administration, *Monthly Statistical Snapshot*, September 2008.

MARK THE DATE!

JANUARY 31, 2009: 1099-Rs MAILED

WHAT DOES BEING ON THE "WATCH LIST" MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.

Why are funds placed on the watch list?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance—**The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk—**Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-adjusted returns—**What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio construction/style drift—**Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio, and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations—**There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely.

There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN

Current Watch List Summary

The following funds are on the watch list as of 12/31/2008:

Ariel Fund: The fund was down an astonishing 34.28% for the quarter underperforming its index by 9.42%. The fund ranks in the 99th percentile for Small - Mid Cap Value funds for the year. The fund has moved up in market cap and therefore we have re-classified it as a Small-Mid Value fund benchmarked to the Russell 2500 Value Index. For those participants who bought this fund for Small Value exposure the plan has added a new Small Value option, the Northern Small Cap Value Fund. We are keeping the fund on the watch list due to the poor performance.

Legg Mason Value Trust continues to suffer. The fund is in the 99th percentile for the year and was down 28.9% for the quarter. The fund underestimated the severity of the credit crisis and has performed poorly as a result. The fund was up 7.11% in the month of December and should do well if the market rebounds in 2009. For those wishing for a more stable large cap blend option there is the Vanguard Index fund in the plan.

Fidelity Puritan remains on the watch list due to a manager change. The fund has underperformed its benchmark but has done well compared to its peer group for the three month period. We are not overly concerned about the short-term performance, but any time there is a change in the portfolio management we automatically place the fund on the watch list. We will continue to monitor the new managers closely.

LSV Value Equity has been placed on the watch list due to recent performance. The fund underperformed its benchmark slightly for the quarter and is in the 70th percentile for the year. 2008 was a rough environment for value oriented managers such as LSV. Most of the pain in the market has come from financials and consumer driven stocks typically favored by value managers. The LSV fund runs a quantitative model that identifies stocks selling at a deep discount. This strategy works well over time but it has not been working over the last year. As long as LSV sticks to their strategy they should rebound when the market shifts back towards value. The fund did outperform in December as the market bounced back.

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